

STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS  
FINANCIAL STATEMENTS  
JUNE 30, 2008

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## Independent Auditor's Report

To the Management  
Office of Auditor of Accounts  
State of Delaware

We have audited the accompanying financial statements of the General and Special Revenue Funds of the Office of Auditor of Accounts (Office) of the State of Delaware, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial statements of the Office and are not intended to present the financial position and the results of operations of the State of Delaware in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General and Special Revenue Funds of the Office, as of June 30, 2008, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Independent Auditor's Report (Cont'd.)

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2008, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

*McBride, Shopa & Co*

Wilmington, Delaware  
November 3, 2008

STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General Fund	Special Revenue Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 168,255	\$ 3,378,273	\$ 3,546,528
Due from other state agencies	<u>-</u>	<u>2,868</u>	<u>2,868</u>
Total assets	<u>\$ 168,255</u>	<u>\$ 3,381,141</u>	<u>\$ 3,549,396</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 106,796	\$ 39,388	\$ 146,184
Accrued payroll and related liabilities	<u>94,042</u>	<u>24,164</u>	<u>118,206</u>
Total liabilities	200,838	63,552	264,390
<b>FUND BALANCE</b>			
Reserve for encumbrances	60,459	113,869	174,328
Unreserved fund balance	<u>(93,042)</u>	<u>3,203,720</u>	<u>3,110,678</u>
Total fund balance	<u>(32,583)</u>	<u>3,317,589</u>	<u>3,285,006</u>
Total liabilities and fund balance	<u>\$ 168,255</u>	<u>\$ 3,381,141</u>	<u>\$ 3,549,396</u>

The accompanying notes are an integral part of these statements.

STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Special Revenue Fund	Total
<b>REVENUES</b>			
State appropriations	\$ 3,324,700	\$ -	\$ 3,324,700
Overhead recapture	-	1,090,340	1,090,340
Total revenues	3,324,700	1,090,340	4,415,040
<b>EXPENDITURES</b>			
Current expenditures:			
Administration	979,648	-	979,648
Financial and compliance	658,300	87,531	745,831
Contractual services	589,677	577,279	1,166,956
Investigations	279,968	-	279,968
Capital outlay	25,836	2,718	28,554
Total expenditures	2,533,429	667,528	3,200,957
Excess revenues over expenditures	791,271	422,812	1,214,083
<b>OTHER FINANCING USES</b>			
Transfer to Public Defender's Office	(820,000)	-	(820,000)
Transfer to Lieutenant Governor's Office	(100)	-	(100)
Reverted to State general fund	(13,129)	-	(13,129)
Total other financing uses	(833,229)	-	(833,229)
Net change in fund balance	(41,958)	422,812	380,854
Fund balance beginning of the year	9,375	2,894,777	2,904,152
Fund balance end of the year	\$ (32,583)	\$ 3,317,589	\$ 3,285,006

The accompanying notes are an integral part of these statements.

STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Office of Auditor of Accounts (Office) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to state and local governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the Office are described below.

**Reporting Entity.** The Office is a constitutional office of the State of Delaware (State). The duties and responsibilities of the Office are set forth in Title 29, Chapter 29 of the Delaware Code, and involve primarily the conduct of post audits (audits of fiscal records that immediately follow the fiscal year end of activity) of the financial transactions of all Delaware agencies including local school districts.

**Fund Financial Statements.** Financial statements are provided for the Office's accounts in the State's general fund and special fund. Both the general fund and the special fund are governmental funds. The accounts in the general fund are the Office's primary operating accounts. This fund accounts for all financial resources of the Office, except those required to be accounted for by State Legislature in the special fund. The special fund is reported as a special revenue fund. The special fund was set up by the State's legislature and receives appropriations for nine of the Office's employees. Receipts in the fund are accounted for as reductions in contractual services expense.

**Measurement Focus and Basis of Accounting.** The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Consistent with State policy, the Office considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded when payment is due.

STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Encumbrances.** Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g. purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**Cash and Cash Equivalents.** Except for a checking account with a balance of \$1,000, the Office's cash represents pooled deposits held by the State Treasurer's Office.

**Inter-Agency Activity.** Amounts charged to other state agencies for certain audit costs are shown as overhead recapture in the Statement of Revenues, Expenditures and Changes in Fund Balance. The overhead recapture for the year ended June 30, 2008 was \$1,090,340. Amounts outstanding for activity between the Office and other state agencies that are representative of external audit costs charged to the agency are recorded as Due from Other State Agencies. Amounts due to the Office were \$2,868 at June 30, 2008.

**Fund Balance.** Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. At June 30, 2008, the Office has reservations of \$60,459 and \$113,869 in the general fund and special fund, respectively. The reservations were for encumbrances.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

At June 30, 2008 the Office has cash and cash equivalents of \$3,546,528. Except for a checking account with a balance of \$1,000, the State Treasurer's Office in Dover, Delaware controls these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the Office, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

The petty cash fund is in the custody of the Office's personnel. This \$1,000 deposit is held by one financial institution and is insured by the Federal Deposit Insurance Corporation.

STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008

**NOTE 3 - PENSION PLAN**

Office employees are employees of the State and are covered under the State Employees' Pension Plan. The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan. The State contribution was 16.58% of the employees' salary for 2008. The employees contribute 3.00% of salary in excess of \$6,000. Payments of pension costs of \$209,612 and \$31,732 for 2008 were made from the general fund and special revenue fund, respectively. An employee can vest pension rights after five consecutive years of service. Certain significant plan provisions are as follows:

- Early retirement:
  - 15 years with service - age of 55 (benefits are reduced by 0.2% each month under age 60)
  - 25 years of service – any age (reduce by 0.2%, each month short of 30 years)
- Service retirement:
  - 15 years of service – age 60
  - 30 years of service – any age
  - 5 years of service – age 62
- Disability retirement:
  - 5 years of service and proof of disability

The State Employees' Pension Plan is part of the Delaware Public Employees' Retirement System, which is a blended component unit of the State of Delaware. More information can be obtained from the Delaware Public Employees' Retirement System Comprehensive Annual Report. To obtain this report contact the Office of Pensions at McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

**NOTE 4 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Office does not anticipate losses from these transactions.

Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements in  
Accordance with Government Auditing Standards

To the Management  
Office of Auditor of Accounts  
State of Delaware

We have audited the financial statements of the Office of Auditor of Accounts (Office) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements in  
Accordance with Government Auditing Standards (Cont'd.)

To the Management  
of the Office of Auditor of Accounts  
Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Office's management, the Office of the Governor, the Office of the Controller General, the Office of the Attorney General, the Office of Management and Budget and the Department of Finance, and is not intended to be used and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

*McBride, Shopa & Co*

Wilmington, Delaware  
November 3, 2008